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April 22, 1994

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

William F. Caton
Acting Secretary
Federal Communications Commission
Mail Stop 1170
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Dear Mr. Caton:

Re: *RM 8448 - Petition for Rulemaking to Amend Part 32 of the Commission's Rules Uniform System of Accounts for Class A and Class B Telephone Companies to Increase the Dollar Limit for Expensing the Cost of Individual Items of Equipment*

On behalf of Pacific Bell and Nevada Bell, please find enclosed an original and six copies of their "*Comments*" in the above proceeding.

Please stamp and return the provided copy to confirm your receipt. Please contact me should you have any questions or require additional information concerning this matter.

Sincerely,

Sherry Herauf

Enclosures

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Petition for Rulemaking to Amend Part 32 of the Commission's Rules Uniform System of Accounts for Class A and Class B Telephone Companies to Increase the Dollar Limit for Expensing the Cost of Individual Items of Equipment	)	RM 8448

COMMENTS OF PACIFIC BELL AND NEVADA BELL

Pacific Bell and Nevada Bell submit these comments in support of the Petition for Rulemaking ("Petition") of the United States Telephone Association ("USTA") filed March 1, 1994. USTA requests that the Commission initiate a rulemaking proceeding to amend its existing rules to increase the expense limit of certain items of equipment listed in Section 32.2000(a)(4) of the Commission's rules from $500 to $2000.[1] In addition, USTA requests that the Commission permit exchange carriers to amortize the previously capitalized undepreciated investment for that equipment over a three-to-five year period beginning January 1, 1994 or January 1, 1995 at the exchange carrier's

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[1] Petition, p. 1.

option.[2] Pacific Bell and Nevada Bell support USTA's Petition.

The Commission has previously supported increasing the expense limit for equipment in this category to permit minor items to be expensed instead of capitalized.[3] The Commission recognized the benefits of an increased expense limit to customers and carriers from a reduced ratebase and from administrative cost savings. USTA's Petition presents another opportunity for the Commission to adjust its regulations to reflect the increasingly competitive telecommunications environment since the Commission last granted an increase in the expense level to $500.

As with previously granted increases in expense limits, the proposed $2000 limit will better reflect the practices of comparable nonregulated firms. Through various dockets and orders the Commission has adapted its rules to increasingly conform exchange carriers' accounting practices to the widely accepted practices of business enterprises which are not regulated. For example, in adopting the new Uniform Systems of Accounts, the Commission recognized that "the new USOA must exist in the new competitive environment, balancing our continuing needs for regulatory information against our desire not to impose

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[2] Petition, p. 1.

[3] Revision to Amend Part 31 Uniform System of Accounts for Class A and Class B Telephone Companies as it relates to the treatment of certain individual items of furniture and equipment costing $500 or less, CC Dkt. No. 87-135, Report and Order, 3 FCC Rcd. 4464 (1988).

unreasonable or unnecessary reporting requirements on telephone companies."[4] And, permitting the expensing of certain items of $2000 or less will eliminate some of the disadvantage to exchange carriers from competitors which are not required by regulation to defer costs.

Customers and carriers will also benefit from reduced administrative costs if capitalizing equipment of $2000 or less is no longer required. Permitting expense treatment for equipment $2000 or less will result in real dollar savings by eliminating some of the detailed records requirements which are labor intensive and costly. Resources are less abundant in the current economic downtrend and consequent downsizing. Capturing efficiencies by eliminating administrative cost is in the public interest.

The effect of the proposed change in treatment would be transparent to ratepayers. The Petition does not ask for additional rates to cover the increase in expenses in the years immediately following the adoption of the new policy. In later years, the expense increase would eventually be balanced by the decrease in depreciation expense that would have resulted had these items continued to be capitalized. Reducing the cost burden of future operations will also benefit carriers by

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4 Revision of the Uniform System of Accounts and Financial Reporting Requirements for Class A and Class B Telephone Companies, CC Dkt. No. 78-196, Report and Order, 60 Rad. Reg. 2d (P&F) 1111 (1986), para. 7; See also, Revision of the Uniform System of Accounts for Telephone Companies to Accommodate Generally Accepted Accounting Principles, CC Dkt. No. 84-469, 50 Fed. Reg. 48408, November 25, 1985.

improving their ability to respond to rapidly increasing competition for local exchange services.

Pacific Bell and Nevada Bell also support USTA's request to amortize the embedded investment over a three-to-five year period, at the carrier's discretion. A three-to-five year amortization period will permit the timely recovery of the embedded investment in keeping with the increasingly competitive telecommunications market without creating an undue impact on the sharing potential.[5] Moreover, amortization will avoid the cost of a dual inventory system caused by different financial treatment of similar items.[6]

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5 In its current review of price caps, the Commission will be examining whether the sharing mechanism can be replaced by adjustments to the productivity factor or other aspects of the plan. Price Cap Performance Review for Local Exchange Carriers, CC Dkt. No. 94-1, Notice of Proposed Rulemaking, February 16, 1994, paras. 47-55.

6 See Amendment of the Uniform System of Accounts to increase the dollar limit for expensing minor items, CC Dkt. No. 81-273, Report and Order, 87 FCC 2d 1137, 1139 (1981) (raising dollar limit for expensing minor items from $50 to $200).

For these reasons, Pacific Bell and Nevada Bell support USTA's Petition and urge the Commission to permit expensing of items described in Section 32.2000(a)(4) that cost $2000 or less.

Respectfully submitted,

PACIFIC BELL
NEVADA BELL

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